March 6, 2007

WORKING CAPITAL FUND

FY 2007 First Quarter Report: Summary

I. Relation of Earnings to Expenses

Based on our reviews, the Fund is performing in a manner consistent with past years. Most businesses should break even and amounts billed in telephone and network businesses should exceed costs in order to finance the capital upgrades required for these two businesses. Earned revenue for the Fund has totaled slightly over $25.8 million for the first quarter, on track for an annual level of approximately $120.6 million, as forecast in Table III of the December bill. Business Expense for the same period was $23.9 million resulting in net income of $1.9 million.

Each business is expected to achieve a balance between annual 'earnings' (billings to customers pursuant to Board-approved pricing policies) and 'expenses' (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.

WORKING CAPITAL FUND

FY 2007 First Quarter Cumulative Business Results (in Millions)

TABLE I			
Business Line	**First Quarter Earnings**	**First Quarter Business Expenses**	**First Quarter Net**
Supplies	$0.7	$0.7	$0.0
Mail	$0.5	$0.5	$0.0
Copying	$0.5	$0.5	$0.0
Printing/Graphics	$0.6	$0.8	$(0.2)
Building Occupancy	$17.2	$15.4	$1.7
Telephones	$2.2	$1.8	$0.4
Network	$1.7	$1.4	$0.3
Procurement Services	$0.2	$0.3	$(0.1)
Payroll Processing	$0.5	$0.4	$0.1
CHRIS	$0.5	$0.4	$0.1
Corp Training Services	$0.1	$0.1	$0.0
PMCDP	$0.3	$0.4	$(0.2)
STARS	$0.9	$1.2	$(0.3)
TOTAL [1]	**$25.8**	**$23.9**	**$1.9**

1 When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

With few exceptions, the net earnings by business line are consistent with a longer-term breakeven position. For example, prior-year building profits that were due to unfinished projects are being offset as projects are completed, and Telephone capital accumulation is an offset to the equipment write-off that resulted in large losses in FY 2003. PMCDP implementation is proceeding in a manner to draw down balances accumulated in the first year. Specific differences in excess of $50,000 are as follows:

- Printing & Graphics experienced net earnings of -$228,235, due to prior year adjustments for cost accruals.

- The Building Occupancy Business Line experienced net earnings of $1,788,521 through the first quarter due to delayed activities caused by the continuing resolution.

- The Telephone Business Line experienced net earnings of $372,287 through the first quarter due primarily to collection of revenues for depreciation without any actual depreciation cost and one-time cost savings. This adds to funds that could be available to support the infrastructure upgrades once a plan is presented to the Board.

- The Network Business Line experienced net earnings of $45,560 through the first quarter, basically on track for the accumulation of capital authorized by the Board in the late 2003 pricing policy changes and one-time cost savings. We expect the net income for FY 2007 to approximate $300,000.

- Procurement Services experienced net earnings of -$168,745, due to closing out contracts in the first quarter that generate less revenue. We expect the net to be zero at year end.

- Payroll experienced net earnings of $170,884 due to uncertainties related to DFAS billing for payroll services.

- CHRIS experienced net earnings of $174,691, due to delayed activities caused by the continuing resolution.

- PMCDP costs are estimated to be in excess of earnings by $175,000, primarily due to the drawdown in balances obligated in the initial FY 2004 year; however, no change in pricing policy is needed.

- STARS experienced net earning of -$323,221, due to operating at a higher level of activity than the budget and catch-up of delayed activities due to the continuing resolution at the beginning of FY 2006.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings downward by $6.4 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted $0.6 million to offset the reverse billing for August/September usage billed in October/November.

II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By December, 2006 we had collected $39.2 million (including prior year funding) compared to $43.6 million in FY 2006 and compared to the estimated $120.6 million in FY 2007 annual revenues. During January other organizations made further advances and the Fund Manager is working with customers to fully fund their WCF requirements as soon as possible.

Table II is not presented in this report because there were numerous customer advances outstanding as a result of funding problems associated with the continuing resolution.

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III. Relation of Payments to Obligations by Business Line

There have been no violations of administrative control of funds procedures by WCF business lines. As shown in Table III, allocations exceeded obligations by an estimated $ 30.1 million by the end of the first quarter. This was due largely to delays in acquiring customer funding, that is late in the fiscal quarter rather than early in the fiscal quarter, and the cautious behavior of the various businesses during the continuing resolution.

The structure of Table III has changed to show the impact of the Board's decision to obligate program funding at the WCF level and to allocate funding to businesses as needed. The Fund Manager is retaining excess funding in his reserve. This will allow administrative efficiencies for program billing, maintain a lower reserve requirement for the Fund as a whole, and improve internal controls by managing business equity centrally.

WORKING CAPITAL FUND
FY 2007 FIRST QUARTER BUSINESS RESULTS (IN MILLIONS)

TABLE III			
Business Line	**Total Allocations**	**First Quarter Obligations**	**Advances Remaining to be Obligated**
Supplies	$ 0.6	$ 0.0	$ 0.6
Mail	0.7	0.1	0.6
Copying	0.5	0.2	0.3
Printing/Graphics	0.8	0.1	0.7
Building Occupancy	16.6	7.4	9.2
Telephones	1.5	-0.2	1.7
Network	0.8	0.4	0.4
Procurement Services	0.2	0.2	0.0
Payroll Processing	0.4	0.1	0.3
CHRIS	0.5	0.1	0.4
Corp Training Services	0.0	0.0	0.0
PMCDP	0.7	0.3	0.4
STARS	0.4	0.3	0.1
Fund Mgrs Reserve	13.9	0.0	13.9
TOTAL	**$ 37.6**	**$ 9.1**	**$ 28.5**

IV. Changes in Budget Estimates by Business Line and Customer

The $15.7 million increase from the April 2005 to the December 2005 estimate for FY 2007 was the result of adding new businesses to finance External Independent Reviews ($10.5 million), Internal Controls ($5.0 million), and $0.2 million increase in the Supply estimate. Otherwise the FY 2007 billing estimates are reasonably aligned with prior estimates.

FY 2007 Budget Estimates for WCF Businesses

Date	Process	FY 2007 Billing Estimate ($Millions)
April 2005	FY 2007 Corporate Review	$104.9
December 2005	FY 2007 Congressional Budget	$120.6
July 2006	FY 2008 OMB Request	$120.6
December 2006	FY 2008 Congressional Budget	$120.6

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the first quarter reviews with the businesses the Fund Manager foresees no immediate need to change pricing policies in any businesses. However, businesses are reviewing their five-year plans in preparation for the FY 2009 budget process. Businesses will begin briefing the Board on requirements at the March Board meeting.

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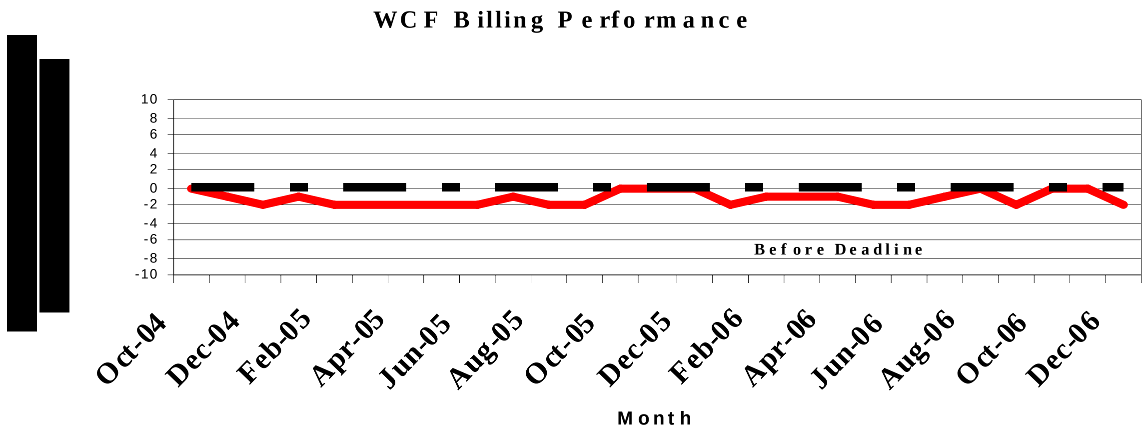
VI. Financial Management Systems Progress

The WCF billing system continues to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS/STARS by the second working day of the month. This allows the Fund staff to publish a bill to customers before the deadline. A minus two (-2) indicates that billing was forwarded two days before the deadline (decreased by two days during FY 2005). This standard provides customers with costs reported in STARS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.



The Board's decision in November to streamline the billings to customers has already yielded benefits in reducing the number of transactions that need to be recorded.

The four most pressing financial management matters that will need to be addressed during the second quarter include:

(1) Reallocation of customer balances for restructured organizations;
(2) Obtaining full advance funding upon congressional action on an FY 2007 appropriation;
(3) Deciding how and when to fold the two new (to the Fund) businesses – Financial Review and EIR's- into the Fund financial framework without unnecessarily confusing transactions; and
(4) Improving training of Fund financial managers to avoid some of the delays we experienced in recording key transactions.